

Report of the GSA Treasurer Fiscal Year 2009 (1 July 2008 through 30 June 2009)

GSA lost a considerable amount of its investment worth during fiscal year 2009, as did many individuals and non-profit organizations. The market value of GSA’s investment portfolio, including those funds of the GSA Foundation that are combined with GSA’s investments and a separate Foundation “Pooled Income Fund” (which holds investments that generate income for the donors as part of their planned giving), fell approximately 22%, from \$32,806,082 on 30 June 2008 to \$25,557,594 on 30 June 2009. Of this latter amount, GSA’s investments amounted to approximately \$17,296,931; the Foundation’s portion of the combined investment portfolio was approximately \$7,686,013; and the Foundation’s Pooled Income Fund had \$574,650.

GSA’s total assets (excluding those of the GSA Foundation), which include investments, our headquarters property in Boulder, equipment, inventory of publications, and contributions and accounts receivable, dropped from \$28,616,837 on 30 June 2008 to \$21,370,151 on 30 June 2009 (Figure 1). The bulk of the Foundation’s assets (\$9,077,597 in total) are its investments, which totaled \$8,260,663 as of 30 June 2009.

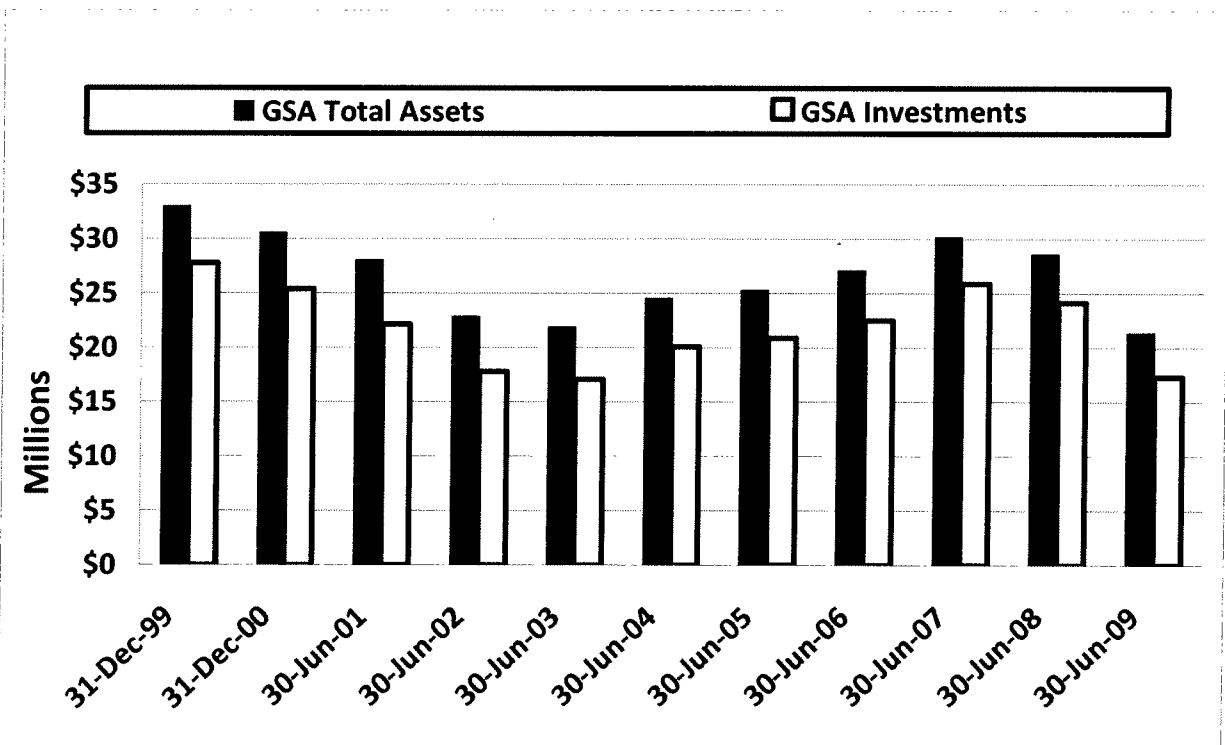


Figure 1. Changes in GSA’s total assets and investments (not including those of the GSA Foundation), 1999 through 30 June 2009.

GSA’s expenses for operations (supporting publications, technical meetings, field trips, grant programs, travel support for students, etc.) totaled \$10,003,672 during the fiscal year, an average of approximately \$453 per member (with 22,065 members as of 31 December 2008). Revenues during the fiscal year amounted to \$8,265,287, which means we needed another \$1,738,385 to

make ends meet. We used interest and dividends on investments (\$642,653) and dipped into unrestricted investments to cover the expenses. To meet our operating expenses during the fiscal year, we withdrew \$1,480,000 from investments. We also used a \$300,000 line of credit in managing cash flow during the year; it is anticipated that the full amount, due on 31 December 2009, will be paid out of general cash flow resulting from the annual meeting in Portland.

GSA's Controller, Tom Haberthier, reported that at the end of the fiscal year, prior to the audit,

- cash basis net income was approximately \$212,300 (14%) above budget;
- revenue was below budget by \$1,279,100 (13%), and
- expenses were \$1,491,400 (13%) below budget.

Revenues below budget included less-than-anticipated grants for an intern program, sales of Special Papers and Treatise volumes, Bulletin sales, revenues to the Cordilleran and Southeast sections, and revenues from partnered specialty meetings. Expenses below budget were employee costs (\$199,300 or 5% below budget, in part from hopefully temporary pay cuts), overhead expenses (\$67,300 or 26% below budget), and program expenses (\$1,224,800 or 18% below budget, with the largest savings in not using a budgeted contingency fund, lower-than-expected contract services for publications, higher-than-expected reimbursements for author inserts in publications, and lower-than-budgeted meeting expenses).

Despite the tough economic times, the GSA Foundation raised \$2,418,070 in fiscal year 2009 – some as unrestricted donations and others as temporarily restricted (for specific purposes, to be spent entirely on good causes for GSA) or permanently restricted donations (endowments, the corpus of which remains so that revenues on the investment are used to support good causes). Also included in this fundraising figure are some bequests. Although the two organizations operate somewhat separately, the purpose of GSA Foundation is to support good causes approved by GSA Council, and GSA Council approves a potential slate of nominations to be Trustees of GSA Foundation. GSA Foundation staff are housed in the GSA headquarters. In fiscal year 2009, the Foundation contributed a gross total of \$644,136 to GSA for good causes and GSA supported the Foundation with \$369,001 (\$200,677 in payroll, \$54,636 in fringe benefits, and \$113,688 in general and administrative overhead expenses covering the Foundation's portion of building operation and maintenance and other costs). The \$476,787 net contribution from the Foundation as reported by GSA is equal to the gross amount given by the Foundation to GSA for good causes minus \$65,000 given to the Foundation by GSA Sections and Divisions (surplus from meetings), minus \$30,000 given to the Foundation by GSA Publications for the information technology fund, \$69,549 paid out by GSA to the Houston Annual Meeting Tri-Societies per a revenue sharing agreement specific to that meeting, and \$2,800 in other amounts. Although it is easy to compare the annual contributions from the Foundation to the amount of money needed to support it, Council recognizes that many of the Foundation's fundraising efforts result in building endowments for the long-term strength of GSA.

In late June 2009, GSA Council approved a policy to keep all funds donated to individual endowments in the corpus of those endowments. In times like the current recession, when investment portfolios shrink, the endowment funds may drop below their corpus values, in which case GSA would need to rebuild the corpus with other, unrestricted funds or allow the revenues on those investments to rebuild the corpus and therefore spend less of the revenue on good

causes. In flush times, when investment revenues greatly exceed the expenditures for good causes from an endowment, Council has the ability to use some of this excess revenue to build the endowments themselves, not just move the funds into a temporarily restricted category. I suggest that Council periodically review the status of all endowments, related funds spent for good causes, and related funds in temporarily restricted or unrestricted categories. To assist in this effort, the table below lists the GSA endowments and other investment funds.

Table A. Investment funds of GSA for the fiscal year from 1 July 2008 to 30 June 2009.

	Penrose	Pardee	Lipman	Total
BEGINNING BALANCE				
a. Permanently restricted	3,884,385			3,884,385
b. Temporarily restricted		6,751,737	25,797	6,777,534
c. Unrestricted	13,472,558			13,472,558
d. Total	17,356,943	6,751,737	25,797	24,134,477
INCOME (LOSSES)				
e. Investments gains (or losses)	(3,793,197)	(1,558,542)	(5,807)	(5,357,546)
f. Contributions/perm. res.				
g. Transfers from other funds/res.	884,345		0	884,345
h. Contributions/temp. res.			25,000	25,000
i. Contributions/unre.				
j. Transfers from other funds/unre.	(682,260)	(202,085)		(884,345)
k. Additions by Council/res.				
l. Additions by Council/temp. res.				
EXPENSES				
m. Good causes	(1,480,000)		(25,000)	(1,505,000)
n. Other expenses				
ENDING BALANCE				
o. Permanently restricted	3,884,385			3,884,385
p. Temporarily restricted	0	4,991,110	19,990	5,011,100
q. Unrestricted	8,401,446			8,401,446
r. Total at end of fiscal year	12,285,831	4,991,110	19,990	17,296,931

Footnotes:

- a. Permanently restricted funds are the corpus, or original endowment plus additional contributions made to the endowment over time. When stipulated by the donor, investment income generally goes to the temporarily restricted portion of the fund. When not otherwise stipulated, investment income goes to the unrestricted portion of the fund. Some details about the purposes and donor intent for individual funds are given in this report.
- b. Temporarily restricted funds are those earmarked to be expended for a specific purpose, as designated by the donors to the fund.
- c. Unrestricted funds may be used for any GSA program or initiative upon approval by Council.

- e. Investment gains (or losses) are the sum of investment fees (a negative number), interest and dividends, realized gains and losses, and unrealized gains and losses attributed to the fund during the fiscal year.
- f, h, and i. Donors may contribute to permanently restricted endowments, temporarily restricted funds, or unrestricted funds.
- g, j, k, and l. Council may choose to move unrestricted funds from one fund to another, as long as donor intent is still fulfilled. Council may choose to add to the permanently restricted portion of funds.

Through his will, Dr. Richard A. F. Penrose, Jr. (1863-1931, GSA President in 1930, Harvard-educated economic geologist with the USGS, later co-founder of the Utah Copper Company, which developed the Bingham Canyon deposit, then professor at the University of Chicago) donated \$3,883,385 to GSA (according to GSA's audited records). The gift is to be "considered endowment funds the income of which only to be used and the capital to be properly invested." Because there were no further restrictions on the use of the funds, other than for the use by GSA, the income is considered unrestricted and comprises a large portion of GSA's assets and source of investment income. Using the U.S. Bureau of Labor Statistics' Consumer Price Index (CPI) inflation calculator (http://www.bls.gov/data/inflation_calculator.htm), the 1932 Penrose gift would have had a buying power of \$61.06 million in 2009.

A memorial fund in honor of Joseph T. Pardee (1871-1960, Presbyterian College and Berkeley-educated geologist with the USGS, renowned for his work on glacial Lake Missoula, GSA Fellow, and President of the Geological Society of Washington) was established in 1994 "to be held, invested or reinvested as the members of council of the Society may determine . . . and to be used as the members of the council . . . may determine for research, study and educational advancement in the field of geology and science." His wife's will stipulated that "it is my express wish and desire that no portion of the proceeds so received be used by the Society to pay or defray the general administrative expenses of the Society, but that rather all income and the fund itself be used for research, study and educational advancement in the field of geology and science." The entire fund (initially approximately \$2.7 million), and the revenue generated from it, is considered temporarily restricted for the purposes stated in the will. By GSA Council's resolution, up to 4.05% of the Pardee Fund can be used each year, based on the value of the fund on December 31, with 4% allocated to research grants and 0.05% to Pardee sessions at the GSA annual meeting. Using the CPI inflation calculator, the 1994 Pardee gift would have a buying power of approximately \$3.92 million in 2009.

Dr. Peter Lipman (Emeritus Scientist with the USGS, expert in volcanology and geologic mapping, past GSA Councilor and chair of the audit and investment committees) and the Lipman Family Foundation, in an agreement dated September 25, 2006, established the Lipman Research Fund as "a restricted endowment fund," from which the income is "to be disbursed for support of student research grants in volcanology and petrology, as designated by the GSA Committee on Research Grants." The agreement states that the Lipman Family Foundation's "contributions to GSA can be fully expended to support student research grants in the year of receipt or they can be carried forward to a future budget year, at the discretion of GSA Executive Director." It further states that "costs of managing and administering grants from the Lipman Fund will be born by GSA and/or the GSA Foundation." The contributions to GSA are considered

temporarily restricted, to be spent to support the student research grants. The Lipman Fund managed by GSA is only part of the overall Lipman Research Fund. The endowment is managed by the GSA Foundation.

Dave Stephenson, President of the GSA Foundation, reports that, at its meeting during the GSA annual meeting in Portland in October, the Foundation expects to adopt an endowment-protection rule to keep all funds donated to individual endowments in the corpus of those endowments. The Foundation currently has 85 funds.

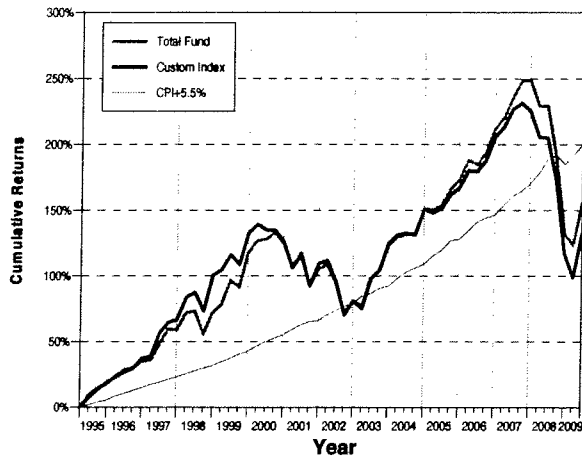
In late June 2009, following the recommendations of GSA’s Investment Committee and our investment consultants (Innovest Portfolio Solutions), GSA Council approved adding high-yield bond funds as a new asset class. Council has authorized the Investment Committee to adjust strategic allocations within each asset class, in collaboration with the recommendations of our investment consultants. Council approves new asset classes and the lower and upper limits of the asset-class groups, of which there are currently three.

Table B. Distribution of GSA’s investments by asset-class group.

Asset-Class Group	Lower limit	Upper limit	As of 30 June 2009
<u>Asset Class</u>			
Equity Funds	40%	65%	60.0%
Domestic large cap equity			
Domestic mid-small cap equity			
International equity			
Fixed income & cash-equivalents	15%	35%	18.9%
Core fixed income			
High-yield bond funds			
Bank-loan funds			
Cash and cash-equivalents			
Alternative investments	10%	30%	21.1%
Absolute return (hedge fund-of-funds)			
Commodity funds			
Private-equity funds			
Real-estate investment trust funds			

GSA’s investment goal of earning at least 5.5% more than inflation generally had, until recently, been met (Figure 2).

a. Cumulative returns over time



b. Comparison of risk versus returns

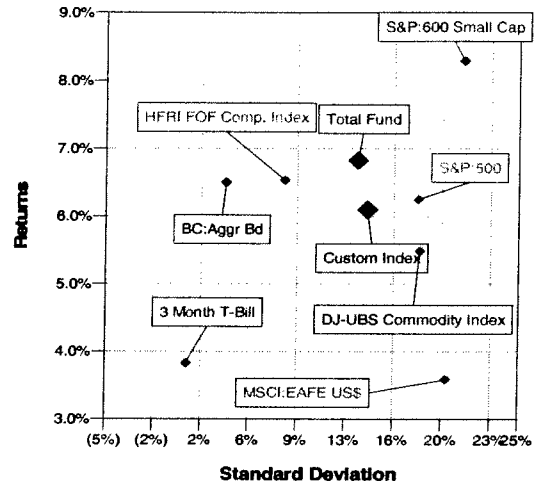


Figure 2. (a) Cumulative returns for the GSA portfolio compared with the goal of inflation (Consumer Price Index) plus 5.5% and with a custom index, March 1995 through June 2009 (the timeframe in which Innovest has been GSA’s investment advisors); (b) Risk (measured by standard deviation) versus return for the GSA portfolio compared with the custom index and other indices (from Innovest).

On 15 May 2005, the GSA Council amended its policies regarding draws from investments. To maintain about a year’s worth of operating funds in its unrestricted investments, Council required that “1. [the] minimum value of GSA’s unrestricted investments will be based on the previous three-year rolling average of annual operating expenses.” In other words, GSA should not draw from investments unless the unrestricted amount is more than the annual operating expenses. However, Council has approved an exception to this policy. Council approved a standing withdrawal of up to 4.05% from the Pardee Fund, and the funds donated to the Lipman Fund are withdrawn for scholarships, regardless of whether the policy to maintain a year’s worth of operating funds in unrestricted investments is met. In addition, Council had previously earmarked some investments for specific expenditures and contingencies.

The average annual operating expenses for fiscal years 2007, 2008, and 2009 were \$9.98 million. Because the unrestricted investments stood at approximately \$8.4 million as of 30 June 2009, we are concerned about budgeting for withdrawals in fiscal year 2011. There are positive signs of recovery in our investment portfolio, so we may be within Council’s policy regarding draws from investments by 31 December 2009, as the budget for the following fiscal year is constructed.

On 15 May 2005, Council also required that “2. Approved draws from investments be no more than 5% per year of the previous 12-quarter rolling average of GSA total investments on December 31 of the current fiscal year, provided the balance in unrestricted funds exceeds the

minimum value defined in number 1.” A technical clarification of this policy is that the 12-quarter rolling average on December 31 is used for budgeting the following fiscal year.

On 31 December 2007 (midway through fiscal year 2008), the 12-quarter rolling average of GSA total investments was \$25,771,436, 5% of which, or \$1,288,572, was available in building the budget for fiscal year 2009. On that date, the unrestricted investments stood at \$16,965,733, well above the budgeted operating expenses of \$11,106,044.

In approving the budget for fiscal year 2009, Council anticipated that expenses would exceed revenues by \$1,530,150 and assumed that this could be covered with the 5% draw on investments plus additional savings. However, Council did not foresee the sharp decline in GSA’s investments or shortfalls in budgeted revenues, including the annual meeting in Houston. Thanks to quick action by Jack Hess and to hard work and sacrifices by the entire GSA staff, the actual operating expenses for fiscal year 2009 were reduced to \$10.00 million.

In prior years, Council had allocated some of the investments as surplus funds to be used for strategic spending. As of 30 June 2008, the surplus funds stood at \$224,776. In addition, we carried forward \$258,348 in contingency funds and \$53,110 in employee benefit reserves from the fiscal year 2008 budget. Although tracked separately, these funds are part of the GSA total investments and considered part of the unrestricted amount in the Penrose fund. The investment draw in fiscal year 2009 of \$1,480,000 did not violate Council’s policy to limit annual draws to 5%, because part of the investment draw included surplus and contingency funds. As of 30 June 2009, the surplus funds stood at \$182,400, an unused contingency fund of \$270,000 was available to carry forward into fiscal year 2010, and the employee benefits reserve was \$54,069.

Council approved the GSA budget for fiscal year 2010 (1 July 2009 through 30 June 2010) with anticipated revenues of \$9,527,851 and anticipated expenses of \$10,475,847. Therefore, to meet operating expenses, we anticipate needing to draw \$947,996 from investments or other funds. On 31 December 2008 (midway through fiscal year 2009), the 12-quarter rolling average of GSA total investments was \$25,216,739, 5% of which, or \$1,260,837, would have been available for fiscal year 2010, had the amount of unrestricted investments exceeded the operating expenses. Unfortunately, by that date, the value of the unrestricted investments had decreased to \$9,754,938, below the \$9.98 million three-year average of annual operating expenses. With the exceptions of the Pardee and Lipman funds, Council’s 15 May 2005 policy only allows drawing from investments when the unrestricted investments exceed the three-year average of annual operating expenses.

In building the fiscal year 2010 budget, we anticipated meeting the shortfall partly through savings on expenses and partly through use of the available surplus, contingency fund, and employee benefits reserve. We anticipate using \$216,000 from the Pardee Fund and \$25,000 from the Lipman Fund. At its 2 May 2009 meeting, Council further approved taking an additional \$200,000 from investments as a rainy day fund, if needed, to meet operational expenses in fiscal year 2010. The final fiscal year 2010 budget projects a surplus or net bottom line of \$80,206.

The GSA Finance Committee and Jack Hess will be monitoring the status of investments and how well actual revenues and expenses are tracking the budget then make recommendations to Council for adjustments as needed.

Council is currently using JDS Professional Group, Englewood, Colorado for the fiscal year 2009 audit, as they did for the previous two years.

I thank Tom Haberthier, Jack Hess, and Dave Stephenson for their assistance in providing data and answering questions concerning this report. I also thank Robbie Gries for her guidance and assistance as we made the transition in the office of Treasurer around the beginning of the current fiscal year. In her Spring 2009 Treasurer's report, she gave some sound advice, which still holds:

“Overall, GSA Council and members will be mostly in a “wait and see” situation throughout the next year, watching the economy as it improves. But proactively, Council can review the procedures for working with both the Investment Committee and Innovest to see if revisions to our procedures can prevent or mitigate the severe effect on our portfolio with this kind of economic downturn in the future. GSA in FY 2010 will be forced to delay some projects and strategic spending intended to grow GSA's services and global exposure. And, unfortunately, if the economy does not improve quickly, GSA may have to entertain more cuts in programs, etc.”

Respectfully submitted, Jonathan G. Price, 26 October 2009.